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IN THE

Supreme Court of the United States

OCTOBER TERM, A. D. 1952.

No. 477

L. A. GOODMAN MANUFACTURING CO., a corporation,
Petitioner,
vs.
GUSTAVE W. BORKLAND,
Respondent.

On Petition for Writ of Certiorari to the Appellate Court of Illinois, First District.

PETITION FOR WRIT OF CERTIORARI AND BRIEF IN SUPPORT THEREOF.

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IN THE

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OCTOBER TERM, A. D. 1952.

L. A. GOODMAN MANUFACTURING CO., a corporation, Petitioner, vs. GUSTAVE W. BORKLAND, Respondent.	On Petition for Writ of Certiorari to the Appellate Court of Illinois, First District.

PETITION FOR WRIT OF CERTIORARI.

To the Hon. Chief Justice and the Associated Justices of the Supreme Court of the United States:

Petitioner, L. A. Goodman Manufacturing Co., a corporation, Appellant below, respectfully prays for Writ of Certiorari to the Appellate Court of Illinois, First District, to review the decision of said Court rendered in the case of Gustave W. Borkland, Plaintiff and Counter-defendant-Appellee v. L. A Goodman Manufacturing Co., a corporation, Defendant and Counterclaimant-Appellant, being case No. 45688 in said Court.

STATEMENT OF MATTERS INVOLVED.

Respondent's complaint in equity in the Superior Court of Cook County, Illinois, sought an accounting and money decree for royalties claimed to be due under a patent license agreement (fol. 1-3).

By pars. 11 and 12 of its amended answer, Petitioner raised the defense that the license agreement is void in that Respondent fraudulently induced the Commissioner of Patents to grant to Respondent one of the licensed patents contrary to the provisions of the patent laws (sec. 4886 Rev. Stat.; 35 U.S.C. 31) by stating under oath that the subject matter thereof had not been in public use more than one year prior to the date the application therefor was filed in the United States Patent Office, although Respondent well knew at such time that such claimed invention had been in public use by General Plastics Corporation, of Marion, Indiana, more than one year prior to the date of filing of his said application; that Respondent concealed such fact from Petitioner and thereby fraudulently induced Petitioner to enter into such license agreement and pay royalties and that Petitioner, relying thereon, was fraudulently induced to execute such license agreement and pay large sums for purported royalties thereunder (fol. 10), and by its amended counterclaim Petitioner incorporated therein the allegations of pars. 11 and 12 of its amended answer and sought recovery of $18,490.93 previously paid by Petitioner as royalties purportedly due under the license agreement on the alleged fraudulently acquired patent (fol. 11-12).

The amended counterclaim and pars. 11 and 12 of the amended answer incorporated therein by reference were stricken on motion of Respondent and judgment entered that Petitioner take nothing by its counterclaim (fol. 14). This judgment being conclusive on Petitioner not only as to its right to recover royalties previously paid, but also as to its right to resist the payment of future royalties, was appealed by Petitioner to the Appellate Court of Illinois, which affirmed the same, holding that Petitioner, as licensee, was estopped to deny the validity of the licensed patent, that the only recognized exception to such rule of estoppel was where a license agreement contained price fixing provisions which could be sustained only under the monopoly granted by a valid patent and that in the absence of a ruling by the United States Supreme Court extending the exception to cases similar to the charges of fraud made herein, Petitioner could neither recover royalties already paid nor defend against the payment of future royalties on the ground of such alleged fraud.

Petition for Leave to Appeal to the Supreme Court of Illinois was duly filed (fol. 33) and was denied September 12, 1952 (fol. 35), making decision of Appellate Court final.

Basis of Jurisdiction.

This Court has jurisdiction to review the decision of the Appellate Court of Illinois under Title 28 U. S. Code Sec. 1257(3).

Petitioner claims an immunity from the application to it of the doctrine of estoppel by license resulting from a breach by Respondent of the Patent Laws of the United

States (Sec. 4886 Rev. Stat.; 35 U. S. Code 31) by the filing by Respondent in the United States Patent Office of a knowingly false jurisdictional affidavit to procure the issuance of the licensed patent, and the right, arising as a result of such breach of such Patent Laws, to defend against the payment of further royalties and to recover royalties already paid on such fraudulently procured patent. Such immunity and right were set up and claimed in Petitioner's Amended Answer and Amended Counterclaim (fol. 10-12) and were specifically denied by the opinion and judgment of the Appellate Court of Illinois (fol. 25-29).

The nature and extent of the legal consequences of a breach of the United States Patent Laws are Federal questions and rules of estoppel (whether declared by Federal or State law) will not be permitted to thwart the purposes of and policies adopted by statutes of the United States (*Scott Paper Co.* v. *Marcalus Co.*, 326 U. S. 249, 255; *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173).

Question Presented.

1. Whether or not fraud perpetrated upon the United States Patent office by the filing of a knowingly false jurisdictional affidavit to obtain the issuance of a patent is such matter of broad public interest as to entitle a licensee under such fraudulently procured patent to defend against the payment of further royalties thereon and to recover royalties already paid.

Reasons Relied On For Allowance of Writ.

The Appellate Court of Illinois has decided a Federal question of substance, not heretofore squarely decided by this Court, and has decided such question in a way directly in conflict with the trend of analogous decisions handed down by this Court within the last ten years.

Petitioner's pleadings set forth a serious breach of the United States Patent Laws by Respondent's filing in the Patent Office of a jurisdictional affidavit which was false, and known by Respondent to be false, in order to procure the issuance of the licensed patent (fol. 10-12). The nature and extent of the consequences of a breach of the United States Patent Laws by fraud upon the Patent Office are Federal questions and in analogous cases this Court has held that among such legal consequences are the complete denial of any and all rights under or by virtue of such fraudulently procured patent (*Hazel-Atlas Glass Co.* v. *Hartford Empire Co.*, 322 U. S. 238; *Precision Mfg. Co.* v. *Automotive Maintenance Machinery Co.*, 324 U. S. 806). Such complete denial of relief cannot be accomplished if any rule of estoppel by license (whether declared by Federal or State law) can be interposed to avoid the legal consequences which this Court has stated follow from the procuring of a patent by fraud upon and perjury in the Patent Office. "Rules of estoppel will not be permitted to thwart the purposes of statutes of the United States" (*Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173).

This Court has heretofore held that paramount public interest in free competition, as declared in the Anti-Trust Laws, prevents the application of the doctrine of estoppel by license where such license contained price fixing agreements which would be illegal if the licensed patent should be invalid. (*Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173; *Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394; *MacGregor* v. *Westinghouse Co.*, 329 U. S. 402.)

The decision of the Illinois Appellate Court sought to be reviewed is erroneous in that it recognizes that competition may not be restricted by enforcement through the doctrine of estoppel of a license containing a price fixing agreement which would be in violation of the Anti-Trust

Laws in the absence of a valid patent but permits competition to be restricted by enforcement through such doctrine of estoppel of a patent monopoly procured by a violation of the United States Patent Laws. It is the declared public policy of free and unrestricted competition that is of importance and, so far as injury to the public is concerned, it makes no difference if competition is restricted by a price-fixing agreement based upon an invalid patent or by a patent monopoly which is invalid because it springs from fraud upon and violation of the Patent Laws.

> "It is * important to the public that competition should not be repressed by worthless patents" (*Pope* v. *Gormully*, 144 U. S. 224, 234.)
>
> "A patent is an exception to the general rule against monopoly and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct." (*Precision Instrument Mfg. Co.* v. *Automotive Maintenance Machinery Co.*, 324 U.S. 806)

It is of great importance to the administration of the Patent Laws that the doctrine of estoppel by license be reexamined by this Court in the light of the paramount public interest in patent monopolies and the public injury which may result from its application; that the principles enunciated in *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173, *Hazel-Atlas Glass Co.* v. *Hartford Empire Co.*, 322 U. S. 238 and *Precision Instrument Mfg. Co.* v. *Automotive Maintenance Machinery Co.*, 324 U. S. 806, be carried to their logical conclusion and that this Court authoritatively declare that the perpetrator of fraud upon the Patent Office cannot profit from such fraud by using the doctrine of estoppel by license as a shield.

PRAYER.

Wherefore Petitioner prays that a Writ of Certiorari issue to the Appellate Court of Illinois, First District, commanding said Court to certify to this Court a full and complete transcript of the record and all proceedings had in said Appellate Court in this cause, entitled Gustave W. Borkland, Plaintiff and Counterdefendant-Appellee v. L. A. Goodman Manufacturing Co., a corporation, Defendant and Counterclaimant-Appellant, being cause No. 45688, to the end that said cause may be reviewed and determined by this Court as provided by statute, and that the judgment of said Appellate Court of Illinois, First District, may be reversed by this Court and the cause remanded.

Respectfully submitted,

L. A. GOODMAN MANUFACTURING Co., a corporation,
Petitioner,

By .....
LLOYD D. HETH,
Its attorney.

IN THE

Supreme Court of the United States

OCTOBER TERM, A. D. 1952.

L. A. GOODMAN MANUFACTURING CO., a corporation, Petitioner,
vs.
GUSTAVE W. BORKLAND, Respondent.

On Petition for Writ of Certiorari to the Appellate Court of Illinois, First District.

BRIEF IN SUPPORT OF PETITION FOR CERTIORARI.

OPINION BELOW.

The opinion of the Appellate Court of Illinois was rendered March 10, 1952 (fol. 24-29). It is reported in abstract form in 345 Ill. App. 610, and is set out in full in appendix to this brief. Petition for Leave to Appeal therefrom was filed in the Supreme Court of Illinois on April 25, 1952 (fol. 33) and denied without opinion September 12, 1952 (fol. 35), making decision of Appellate Court final.

Jurisdiction.

The jurisdiction of this Court is invoked under Title 28 United States Code Sec. 1257(3) by reason of denial to Petitioner of immunity and right claimed under Title 35 United States Code Sec. 31.

Statement of the Case.

All facts necessary to a consideration of the questions presented have been set out in the Statement of Matters Involved in the foregoing Petition.

Specification of Errors.

It is respectfully submitted that the Courts of Illinois erred in holding that the doctrine of estoppel by license barred Petitioner from contesting the validity of the licensed patent which was alleged to have been procured by fraud upon and perjury in the Patent Office.

SUMMARY OF ARGUMENT.

Point I.

Fraud perpetrated upon the United States Patent Office to obtain the issuance of a patent is a matter of broad public interest. As a matter of public policy, a patent so obtained is void for all purposes and money paid as royalties thereunder may be recovered.

Hazel-Atlas Glass Co. v. *Hartford Empire Co.*, 322 U. S. 238;

Hartford-Empire Co. v. *Shawkee Mfg. Co.*, 163 Fed. (2d) 474;

Precision Instrument Mfg. Co. v. *Automotive Maintenance Machinery Co.*, 324 U. S. 806;

Sola Electric Co. v. *Jefferson Electric Co.*, 317 U. S. 173;

Scott Paper Co. v. *Marcalus Co.*, 326 U. S. 249, 255;

Katzinger Co. v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394;

MacGregor v. *Westinghouse Co.*, 329 U. S. 402.

ARGUMENT.

Point I.

Fraud perpetrated upon the United States Patent Office to obtain the issuance of a patent is a matter of broad public interest. As a matter of public policy, a patent so obtained is void for all purposes and money paid as royalties thereunder may be recovered.

The judgment hereby sought to be reviewed results from the application of a general rule of law which estops a licensee to deny the validity of a licensed patent. Petitioner contends that the facts alleged in its pleadings come within the exception referred to in the Illinois Appellate Court's opinion which recognizes that such doctrine of estoppel should not be applied "when a statute or broad public interest conflicts therewith." Under this exception Petitioner should be entitled not only to defend against the payment of further royalties but also to recover those already paid because Respondent perpetrated a serious fraud upon the U. S. Patent Office in order to induce it to issue the patent under which Respondent seeks to collect such royalties, by filing with such office a false affidavit known by Respondent to be false (fol. 10-12).

The affidavit alleged to be false is required by statute and is a condition precedent to the exercise of jurisdiction by the Commissioner of Patents. (§ 35, Title 35, U.S.C.A. and notes thereto) and innumerable authorities have held that a patent is invalid if there has been a public use for more than one year prior to the filing of application for such patent (Note 840 to § 31, Title 35, U. S. C. A.).

The doctrine relied upon by Petitioner stems from the decisions of this Court in *Hazel-Atlas Glass Co.* v. *Hartford-Empire Co.*, 322 U. S. 238, and *Shawkee Mfg. Co.* v. *Hartford-Empire Co., id.* 271, decided May 15, 1944. In the *Hazel* case the Court said:

> "In 1926 Hartford had pending an application for a patent • • • (which) 'was confronted with apparently insurmountable Patent Office opposition.' To help along the application, certain officials and attorneys of Hartford determined to have published in a trade journal an article signed by an ostensibly disinterested expert which would describe the 'gob feeding' device as a remarkable advance in the art of fashioning glass by machine. Accordingly these officials prepared an article • • • (and) procured the signature of one William P. Clarke, widely known as National President of the Flint Glass Workers' Union. Subsequently, in July 1926, the article was published in the National Glass Budget, and in October 1926 it was introduced as part of the record in support of the pending application in the Patent Office. January 3, 1928, the Patent Office granted the application as Patent No. 1,655,391. • • •
>
> "In their brief filed with the Circuit Court of Appeals, the attorneys for Hartford, one of whom had played a part in getting the spurious article prepared for publication, directed the Court's attention to 'The article by Mr. William Clarke, former President of the Glass Workers' Union.' The reference was not without effect. Quoting copiously from the article to show that 'labor organizations of practical workmen recognized' the 'new and differentiating elements' of the 'gob feeding' patent owned by Hartford, the Circuit Court on May 5, 1932, held the patent valid and infringed. • • •
>
> "Shortly afterward Hazel capitulated. It paid Hartford $1,000,000 and entered into certain licensing agreements. • • •
>
> "Here, even if we consider nothing but Hartford's sworn admissions, we find a deliberately planned and

carefully executed scheme to defraud not only the Patent Office but the Circuit Court of Appeals. • • •

"This matter does not concern only private parties. There are issues of great moment to the public in a patent suit. *Mercoid Corporation* v. *Mid-Continent Investment Co.*, 320 U. S. 661; *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488. • • • The public welfare demands that the agencies of public justice be not so impotent that they must always be mute and helpless victims of deception and fraud. • • •

"Hartford's officials and lawyers thought the article material. They conceived it in an effort to persuade a hostile Patent Office to grant their patent application, and went to considerable trouble and expense to get it published. Having lost their infringement suit based on the patent in the District Court wherein they did not specifically emphasize the article, they urged the article upon the Circuit Court and prevailed. • • •

"Hartford's fraud, hidden for years but now admitted, had its genesis in the plan to publish an article for the deliberate purpose of deceiving the Patent Office. The plan was executed, and the article was put to fraudulent use in the Patent Office, contrary to law. U. S. C., Title 35, § 69; *United States* v. *American Bell Telephone Co.*, 128 U. S. 315. From there the trial of fraud continued without break through the District Court and up to the Circuit Court of Appeals. Had the District Court learned of the fraud on the Patent Office at the original infringement trial, it would have been warranted in dismissing Hartford's case. • • •

"The total effect of all this fraud, practiced both on the Patent Office and the courts, calls for nothing less than a complete denial of relief to Hartford for the claimed infringement of the patent thereby procured and enforced."

Hazel, Shawkee and others then filed counterclaims in the District Court against Hartford-Empire to recover moneys paid in settlement of claims for infringement, royalty fees

paid under license contracts after the settlement, attorney's fees and expenses of litigation and exemplary damages. The District Court allowed restitution of the amounts paid to Hartford-Empire in settlement of infringement claims and disallowed the other claims (*Hartford-Empire Co.* v. *Shawkee Mfg. Co. et al.*, 67 Fed. Sup. 26).

Upon appeal (*Hartford-Empire Co.* v. *Shawkee Mfg. Co.*, 163 Fed. (2nd) 474) the Circuit Court of Appeals Third Circuit said:

> "In addition to the sums paid to Hartford in the accounting proceeding which were allowed by the lower Court, other elements of the counterclaims which are pressed on the appeal of the injured parties are:
>
> "1. Return of royalty fees paid under contracts to Hartford for the use of Hartford controlled feeders after the use of the royalty free feeders had been enjoined. • • •
>
> "Though the royalty payments were not made by reason of any direct order of the injunction decree, under the evidence there can be no doubt but that it was the decree which forced Glenshaw and McKee to resume use of the Hartford feeders. • • • but for the injunction the Hartford feeders would have been superseded by non-royalty machines. The injunction • • • forced Glenshaw and McKee to retain their old royalty contracts with Hartford (which otherwise could have been terminated) and to renew them at their expiration. *The enforcement therefore of Hartford's fraudulent patent resulted in certain royalty payments to the former by McKee and Glenshaw which otherwise would not have been made.* The cause of action arising is not one calling for compensatory damages but is squarely under the doctrine of restitution. • • •
>
> "Therefore whatever portion of the royalties plus interest to which they are entitled must be repaid to Glenshaw and McKee."

In *Precision Instrument Mfg. Co.* v. *Automotive Maintenance Machinery Co.*, 324 U. S. 806, this Court made a

sweeping condemnation of the procuring of patents through fraud upon and perjury in the Patent Office, and declared beyond question that matters of "broad public interest" are involved therein. Automotive was seeking a patent on a wrench invented by one Zimmerman and its application was in interference with an application by one Larson which had been acquired by Precision. Automotive had information which indicated that Larson's application was founded upon false affidavits and that Larson had committed perjury in the interference proceeding. As a result of Automotive's confronting Larson with its discovery of information tending to indicate Larson's perjury, the interference proceeding was settled by Larson and Precision conceding the priority of the Zimmerman application and the Larson application was assigned to Automotive, which thereupon licensed Larson and Precision on a royalty basis, in which agreement Larson and Precision acknowledged the validity of the patents to issue on both the Larson and Zimmerman applications. After issuance of the patents, Precision began to manufacture a wrench which Automotive claimed was an infringement of the Larson and Zimmerman patents and a breach of the license contract and Automotive brought suit for such infringement and breach of the license contract. In affirming the decree of the district court dismissing Automotive's suit, this Court said:

> "The guiding doctrine in this case is the equitable maxim that 'he who comes into equity must come with clean hands.' * * * where a suit in equity concerns the public interest as well as the private interests of the litigants this doctrine assumes even wider and more significant proportions. For if an equity court properly uses the maxim to withhold its assistance in such a case it not only prevents a wrongdoer from enjoying the fruits of his transgression but averts an injury to the public. The determi-

nation of when the maxim should be applied to bar this type of suit thus becomes of vital significance. See *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488, 492-494.

"In the instant case Automotive has sought to enforce several patents and related contracts. Clearly these are matters concerning far more than the interests of the adverse parties. The possession and assertion of patent rights are 'issues of great moment to the public.' *Hazel-Atlas Glass Co.* v. *Hartford-Empire Co.*, 322 U. S. 238, 246. See also *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661, 665; *Morton Salt Co.* v. *Suppiger Co., supra; United States* v. *Masonite Corp.*, 316 U. S. 265, 278. A patent by its very nature is affected with a public interest. As recognized by the Constitution, it is a special privilege designed to serve the public purpose of promoting the 'Progress of Science and Useful Arts.' At the same time, *a patent is an exception to the general rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct* and that such monopolies are kept within their legitimate scope. The facts of this case must accordingly be measured by both public and private standards of equity. * * * Such conduct does not conform to minimum ethical standards and does not justify Automotive's present attempt to assert and enforce these perjury-tainted patents and contracts. * * * it is clear that Automotive knew and suppressed facts that, at the very least, should have been brought in some way to the attention of the Patent Office, especially when it became evident that the interference proceedings would continue no longer. Those who have applications pending with the Patent office or who are parties to Patent Office proceedings have an uncompromising duty to report to it all facts con-

cerning possible fraud or inequitableness underlying the applications in issue. Cf. *Crites, Inc.* v. *Prudential Co.*, 322 U. S. 408, 415. • • • Public interest demands that all facts relevant to such matters be submitted formally or informally to the Patent Office, which can then pass upon the sufficiency of the evidence. Only in this way can that agency act to safeguard the public in the first instance against fraudulent patent monopolies. Only in that way can the Patent Office and the public escape from being classed among the 'mute and helpless victims of deception and fraud.' *Hazel-Atlas Glass Co.* v. *Hartford-Empire Co.*, *supra*, 246.

" • • • where, as here, the settlement is grounded upon knowledge or reasonable belief of perjury which is not revealed to the Patent Office or to any other public representative, the settlement lacks that equitable nature which entitled it to be enforced and protected in a court of equity.

"By the terms of the settlement, Automotive secured the perjured Larson application and exacted promises from the other parties never to question the validity of any patent that might be issued on that application. • • • These facts all add up to the inescapable conclusion that Automotive has not displayed that standard of conduct requisite to the maintenance of this suit in equity. That the actions of Larson and Precision may have been more reprehensible is immaterial. *The public policy against the assertion and enforcement of patent claims infected with fraud and perjury* is too great to be overidden by such a consideration. Automotive knew of and suspected the perjury and failed to act so as to uproot it and destroy its effects."

In addition to the authorities based upon the *Hazel-Atlas* case, the doctrine of estoppel in patent cases has been severely limited in the last decade by other decisions wherein this Court has demonstrated an ever-increasing readiness to prevent wrongdoers from enjoying the fruits

of their wrongful acts when the public good was served thereby. In 1942, a substantial inroad was made upon the estoppel rule by the holding in *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173, that a licensee was not estopped in an action to enforce a price fixing clause in the license to defend such action by showing that the licensed patent was invalid, and in *Scott Paper Co.* v. *Marcalus Co.*, 326 U. S. 249, the Court held that the twin doctrine of estoppel of an assignor did not bar the defense of a suit for infringement of the assigned patent on the ground that the alleged infringing device was that of a prior-art expired patent. There were no fraud or price fixing claims in *Scott* v. *Marcalus* but the Court put the protection of the public interest in free enterprise above reward to the patentee and above the doctrine of estoppel.

The holding of the *Sola* case was again before the Court in *Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394, and *MacGregor* v. *Westinghouse Co.*, 329 U.S. 402, and was greatly expanded to permit a licensee to show in a suit initiated to collect royalties that the license contract illegally fixed prices because the licensed patent was invalid. This expansion of the doctrine of paramount public interest constituted such a substantial invasion of the estoppel theory as to lead Justice Frankfurter to question whether the latter was not completely destroyed.

In *Automatic Radio Co.* v. *Hazeltine*, 339 U.S. 827 (which Respondent urged below as a limitation upon the *Hazel-Atlas* and *Shawkee* cases) Justices Douglas and Black presented cogent reasons why the public good required the complete abandonment of the estoppel doctrine. However, the majority of the Court, while consistently refusing to permit the estoppel rule to be used as a shield for illegal or fraudulent purposes, was not ready to completely abandon the doctrine when there was no fraud or illegality shown to exist. The sole issue in *Automatic* v. *Hazel-*

tine was whether the inclusion of many patents in one license, with royalty computed upon the total amount of licensee's sales regardless of whether or not the patents were used by the licensee, was a misuse of the patents or a violation of the antitrust laws. There was no question of fraud upon the Patent Office and, as found by the Court "no showing that the licensing agreement here, or the practices under it were a misuse of patents or contrary to the public policy." No price fixing was involved so that the *Katzinger* and *MacGregor* cases were inapplicable. There being no other matter of broad public interest shown, the majority of the Court held that the general rule of estoppel would apply. The principles involved in the *Hazel-Atlas and Shawkee* cases had no application to the matters in dispute in *Automatic* v. *Hazeltine,* a review of the briefs filed discloses that neither case was cited therein and the Court's opinion does not refer to either case. Under the circumstances *Automatic* v. *Hazeltine* cannot serve to overrule or limit *Hazel-Atlas* and the subsequent authorities based thereon.

It would unduly prolong this Petition to list and distinguish the authorities cited by Respondent below in anticipation that such authorities will again be cited in answer hereto. Most of them antedate the *Hazel-Atlas* case and the other either do not discuss its doctrine or are readily distinguishable on the facts. Only one—*Lanova Corporation* v. *Atlas Imperial Diesel Engine Co.,* 55 A. (2nd) 272, decided by a Delaware trial court—discusses fraud in obtaining a patent, and the Court subsequently (64 A (2nd) 419) in effect reversed itself by staying further proceedings until the disposition of pending Federal Court litigation to test the validity of patents involved.

Every element necessary to the maintenance of Petitioner's counterclaim has been established and approved by re-

cent decisions of this Court. It has stated repeatedly that fraud upon or perjury in the Patent Office to procure the issuance of a patent is a matter of broad public interest—that "the farreaching social and economic consequences of a patent (which grants a 17-year monopoly to the patentee) give the public a paramount interest in seeing that patent monopolies spring from back grounds free from fraud or other inequitable conduct." It has held that fraud upon the Patent Office calls for nothing less than complete denial of any rights under the fraudulently obtained patent. Pursuant to its mandate, the Court of Appeals has entered judgment for the return of royalties paid under licenses covering a fraudulently procured patent. The fraud here alleged is of much greater import than that in the *Hazel-Atlas* and *Shawkee* cases, where it consisted of merely an unsworn magazine article, whereas the subject case involves an affidavit which has been held to be jurisdictional.

Notwithstanding the unmistakable trend of such decisions, the Illinois Appellate Court has refused to recognize the same herein and by its statement "In the absence of a ruling by the (U.S.) Supreme Court extending the exception to cases similar and the charges of fraud in this record, we must hold that the rule of estoppel applies" puts it squarely up to this Court to assume jurisdiction herein and to declare unequivocally the rule which public interest requires.

It is more important to the public that competition should not be repressed by worthless patents than it is that a licensee who accepts a license under an apparently valid patent and thereafter learns that such patent was procured by means of fraud perpetrated upon or perjury committed in the Patent Office should be estopped from so acting as to "uproot such perjury and destroy its effects." Royalties collected from a licensee so estopped must neces-

sarily be passed on in the purchase price of the product so that eventually the burden of a fraudulent patent monopoly falls upon the consuming public.

We submit that the estoppel doctrine has no substantial basis in public interest or public welfare which requires its application as a shield for the perpetrator of fraud upon the Patent Office; that the interest of the public in eliminating fraudulent patent monopolies creates the "broad public interest" sufficient to bring the subject case within the exception to the estoppel rule; and that Petitioner should be entitled not only to defend against the payment of further royalties upon the patent fraudulently obtained but also to recover back royalties already paid therein.

Inasmuch as the ultimate validity of the patent in question cannot be determined in the State Courts of Illinois, we therefore indulge in the liberty of informing this Court that there is presently pending and shortly to be tried in the U. S. District Court for the Northern District of Illinois, Eastern Division, an action between a third party and Respondent herein to contest the validity of the patent here involved. We respectfully submit that Certiorari should be granted, the judgment in the subject case reversed, and the cause remanded with directions that proceedings in the trial court be stayed until the validity of the patent in question is determined in the Federal Court. If the Federal Court determines that Respondent obtained the disputed patent by fraud perpetrated on the Patent Office, he should not be allowed to profit by such fraud and mulct Petitioner and the consuming public of royalties. If the patent is found to be valid, Respondent can thereafter readily obtain an accounting and payment of royalties.

Respectfully submitted,

LLOYD D. HETH,
Attorney for Petitioner.

APPENDIX.

OPINION OF APPELLATE COURT OF ILLINOIS.

Defendant and counterplaintiff in plaintiff's action for an accounting of royalties under a patent license agreement, appeals from a judgment striking and dismissing its amended counterclaim seeking judgment against plaintiff for $14,490.93—royalties previously paid under the license agreement, and $4,000 previously paid under an agreement alleged to have been executed "as a condition precedent to the grant of said License Agreement."

The license agreement, dated October 1, 1948, covered six patents, four patent applications, and all letters patent issuing on said applications and all other letters patent and patent applications upon any subject matter, of the letters patent and patent applications specified or any improvements thereon—all hereinafter referred to as Borkland patents. The license was declared to be a non-exclusive, non-divisible license, and to expire upon the expiration of the last of the patents designated. Defendant filed an amended answer in which it denied in paragraph 10 that it is making or has made, used or sold any articles embodying or made in accordance with said Borkland patents, and alleging that it sells articles which it makes wholly in accordance with the teachings of the prior art. In paragraph 11 it alleged that the license agreement is void and unenforceable in that plaintiff fraudulently induced the Com-

missioner of Patents to grant plaintiff Patent No. 2,442,338, included in the license agreement, and to reissue it as Reissue No. 23,171 on November 29, 1949, contrary to the provisions of the statutes pertaining to the Patent Laws of the United States, by stating under oath that the subject matter covered had not been in public use more than one year prior to the date the application therefor was filed in the United States Patent Office, although plaintiff well knew at such time that the claimed invention had been in public use more than one year prior to the date of the filing of the application. In paragraph 12 it alleged that the license agreement is void and unenforceable in that although plaintiff well knew the matters alleged in paragraph 11 of the amended answer, he concealed them from defendant and thereby fraudulently induced defendant to enter into the agreement by representing that he was the lawful inventor and patentee of the Borkland patents. Counterplaintiff adopts and incorporates the three paragraphs above mentioned in its amended counterclaim, and alleges in paragraph one thereof the payment of $14,490.93 for royalties purportedly due under the license agreement. In paragraph 2 it alleges that on to-wit November 8, 1948, and prior to the grant and actual execution of the license agreement, and "at plaintiff's demand as a condition precedent to the grant of said License Agreement, defendant was wrongfully and unlawfully induced by plaintiff to execute an obligation to plaintiff in the sum of $5,226.66, * * * and that defendant has paid to plaintiff the sum of $4,000 on account thereof." It is further alleged in the amended counterclaim that said sums were paid to plaintiff through inadvertence, accident and mistake by reason of the matters set forth in paragraph 10 of defendant's amended answer, and that plaintiff ought not to retain said sums

by reason of the fraudulent acts of plaintiff as set forth in paragraphs 11 and 12. On motion of plaintiff paragraphs 11 and 12 of the amended answer were stricken and the amended counterclaim was stricken and dismissed.

Counterplaintiff's claim is based upon an alleged fraud upon the patent commissioner or patent office through the alleged false affidavit to the effect that the subject matter covered by the patents had not been in public use more than one year prior to the date of the application for the patents. Plaintiff and counterdefendant insists that counterplaintiff is estopped to deny the validity of the patents covered by the license agreement, unless, as stated in 69 C. J. S. at page 621, "* * * a statute or broad public interest conflicts therewith, as, for instance, where the license agreement contains illegal price-fixing covenants." Counterplaintiff concedes the general rule of estoppel of a licensee of a patent, but contends that under the principle announced in the case of *Hazel-Atlas Glass Co.* v. *Hartford-Empire Co.*, 322 U.S. 238, and *Shawkee Mfg. Co.* v. *Hartford-Empire Co.*, 322 U. S. 271, the exception to the rule of estoppel has been extended to cases of fraud in the procurement of the patents or in procuring decrees of court establishing the validity of the patents. The principle underlying the rule of estoppel of a licensee is similar to that governing the estoppel of a tenant to deny the title of his landlord. This rule of estoppel was applied by the Supreme Court of the United States as early as 1855 in the case of *Kinsman* v. *Parkhurst*, 18 How. (59 U. S.) 289. The last case brought to our attention is *Automatic Radio Mfg. Co.* v. *Hazeltine Research, Inc.*, 339 U.S. 827, decided in 1950. In no case brought to our attention has the Supreme court extended the exception beyond

cases wherein the license agreement contained price-fixing provisions which could be sustained only under the monopoly granted by a valid patent. See *Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394, *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173, *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U. S. 249, and *Lanova Corp.* v. *Atlas Imperial Diesel Engine Co.*, 55 A. 2d 272. An extension of the exception to the rule of estoppel to the fraud charged here would render every license agreement subject to attack in very case in which the priority of the invention might be questioned. In the absence of a ruling by the Supreme court extending the exception to cases similar to the charges of fraud in this record, we must hold that the rule of estoppel applies. The court properly struck the counterclaim and entered judgment for counterdefendant.

The judgment is affirmed.

FILED
JAN 7 1953

IN THE

Supreme Court of the United States

OCTOBER TERM, A. D. 1952.

No. 477

L. A. GOODMAN MANUFACTURING CO., a corporation,
Petitioner,
vs.
GUSTAVE W. BORKLAND,
Respondent.

On Petition for Writ of Certiorari to the Appellate Court of Illinois, First District.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

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L. A. GOODMAN MANUFACTURING CO., a corporation, Petitioner, vs. GUSTAVE W. BORKLAND, Respondent.	On Petition for Writ of Certiorari to the Appellate Court of Illinois, First District.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

STATEMENT OF THE CASE.

Respondent (licensor) brought suit against petitioner in the Superior Court of Cook County, Illinois, for royalties due under a patent license agreement, and petitioner attempted to defend on the ground, among others, that the subject matter of one of the licensed patents had been in public use for more than one year prior to the application therefor, whereas respondent's application knowingly stated it had not. Petitioner also sought by its amended counterclaim to recover on that ground royalties already paid in to respondent under the license agreement. The trial court dismissed the amended counterclaim and entered judgment for respondent. Petitioner appealed from that judgment and the Appellate Court of Illinois for the First District affirmed.

SUMMARY OF ARGUMENT.

Petitioner, being an admitted licensee under a patent license agreement with respondent, is estopped to dispute the validity of any of the licensed patents, and this rule of estoppel prevents petitioner from suing respondent to recover back royalties already paid in to respondent under this agreement. Despite the particular manner in which petitioner has phrased its amended counterclaim and despite the fact that the amended counterclaim states the legal conclusion that respondent fraudulently induced the issuance of one of the patents, the essential ground asserted therein for the recovery of royalties is that one of the licensed patents is invalid.

ARGUMENT.

I.

Because petitioner is an admitted licensee of certain patents under a license agreement, petitioner is estopped from disputing the validity of those patents, and is estopped from suing to recover back royalties paid in thereunder on the grounds of the alleged invalidity of one of such patents. Petitioner does not bring himself within the exception to the general estoppel rule which applies only where violations of anti-trust statutes are involved.

Petitioner's counsel have striven to make it appear that this is an unusual case involving acts of fraud and presenting a novel question of law. We submit that that just simply is not so. This is a mine-run action for royalties under a patent license agreement where the licensee (petitioner) is attempting to get out of its bargain by involving the licensor in extended litigation over the validity of one of the several patents involved. It is a typical case for application of the general rule estopping a licensee from questioning the validity of the licensed patents, as the Superior Court of Cook County, Illinois, and the Appellate Court of Illinois for the First District very properly held.

Petitioner purports to trace out a trend in the recent cases which have greatly expanded the exceptions to the estoppel rule. But this Court will recall that the exception recognized in *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U.S. 173, *Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U.S. 394, and *MacGregor* v. *Westinghouse Co.*, 329 U.S. 402, were very definitely limited by this Court in the recent case of *Automatic Radio Co.* v. *Hazeltine*,

339 U.S. 327, where this court reaffirmed and followed the traditional rule, stating at page 836:

> "Finally, it is contended that notwithstanding the licensing agreement, petitioner-licensee may contest the validity of the patents it is charged with using. The general rule is that the licensee under a patent license agreement may not challenge the validity of the licensed patent in a suit for royalties due under the contract. *United States* v. *Harvey Steel Co.*, 196 U. S. 310. The general principle of the invalidity of price-fixing agreements may be invoked by the licensee of what purport to be valid patents to show in a suit for royalties that the patents are invalid. *Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U.S. 394; *MacGregor* v. *Westinghouse Elec. & Mfg. Co.*, 329 U. S. 402. There is no showing that the licensing agreement here or the practices under it were a misuse of patents or contrary to public policy. This limited license for 'home' use production contains neither an express nor implied agreement to refrain from production for 'commercial' or any other use as part consideration for the license grant. The *Katzinger* and *MacGregor* cases are inapplicable. The general rule applies, and petitioner may not, in this suit, challenge the validity of the licensed patents."

It would serve no purpose to discuss the countless cases on this general rule of estoppel which antedated the *Automatic Radio Co.* case because the opinion in that case represents the latest word on the subject by the Supreme Court and the reaffirmance of the rule quoted above is clear and unequivocal.

The rationale of the rule is succinctly stated in *Eastern States Petroleum Co.* v. *Universal Oil Products Co.*, 2 Atl. (2d) 138, where the issues presented were remarkably similar to those involved in the instant case. That court said at page 141:

> "Where a licensee takes a license to work a patent for which letters patent have been duly issued, receiving the benefits of the agreement including immunity from molestation by the owner on the ground of infringement, it is highly inequitable that he should be permitted to escape the obligation to pay royalties which he stipulated he would pay in consideration for the granted immunity. It was so held in the leading case of *Kinsman, et al.* v. *Parkhurst,* 18 How. 289, 15 L.Ed. 385. The doctrine of that case has been uniformly recognized and accepted without a single dissent, so far as my investigations show in subsequent cases in the Federal and State jurisdictions in this Country and in England."

This decision was approved by the Supreme Court of Delaware in *Eastern States Petroleum Co.* v. *Universal Oil Products Co.,* 8 Atl. (2d) 80, 23 Del. Ch. 358.

In accord are several very recent cases: *Bucky* v. *Sebo,* 102 N.Y.S. (2d) 522; *Hope Basket Co.* v. *Product Advancement Corp.,* 89 F. Supp. 116, 125, 187 F. (2d) 1008, 1012; and *Lanova Corporation* v. *Atlas Imperial Engine Co.,* 55 Atl. (2d) 272, where the leading cases on the subject were discussed at length and the Court concluded at page 275 that:

> "• • • the estoppel principle still retains its full vigor where no statute or broad public interest conflicts therewith."

II.

Despite the manner in which counterplaintiff's allegations are framed, the essential ground asserted in the Amended Counterclaim for the recovery of royalties paid in is that one of the licensed patents is invalid.

Petitioner makes much of the fact that it uses the term "fraudulently induced" in charging respondent with wrongdoing. However, petitioner can not alter the nature

of its charge by the use of a descriptive adjective. The actual fact charged is that one of the several licensed patents had been in public use for more than a year prior to the date of the application, whereas respondent's application knowingly stated that it had not. We contend that this is an ordinary case of licensee trying to dispute the validity of one of the patents, even though petitioner phrased its allegations in such a way as to try and get out from under the general estoppel rule.

In several reported cases licensees have attempted to couch their charges of wrongdoing in language similar to that employed by petitioner here, and the courts have uniformly held that such allegations amounted to charging that the patents were invalid, and therefore came within the estoppel rule.

Thus in *Bucky* v. *Sebo*, 102 N.Y.S. (2d) 522, a licensee was sued by the licensor for royalties, and in sustaining a motion to strike portions of the defendant-licensee's answer, the court said at page 523:

> "The first five and the seventh defenses plead the invalidity of the patents for various causes—lack of invention, prior user, fraud in seeking the patent and the like. It is not denied that the patents were issued but the claim is that they are void.
>
> "[1] It has long been axiomatic that a licensee cannot, in an action for payments due under the lease, challenge the validity of that license. * * *"

See also: *Lanova Corporation* v. *Atlas Imperial Engine Co.*, 55 Atl. (2d) 272; and *Eastern States Petroleum Co.* v. *Universal Oil Products Co.*, 2 Atl. (2d) 138; 8 Atl. (2d) 80, 23 Del. Ch. 358.

III.

Petitioner's Cases Distinguished.

Not one of the cases cited by petitioner is analogous to the instant case. Petitioner's principal reliance is placed upon the *Hartford-Empire Co.* cases: *Hazel-Atlas Co.* v. *Hartford-Empire Co.*, 322 U. S. 238; *Shawkee Mfg. Co.* v. *Hartford-Empire Co.*, 322 U.S. 271, and *Hartford-Empire Co.* v. *Shawkee Mfg. Co., et al.*, 67 F. Supp. 26, and 163 F. (2d) 474.

But those were cases where it was sought to set aside a judgment for after-discovered fraud *practiced on the Court* and to annul license agreements entered into under the compulsion of fraudulently obtained decrees. At their broadest, these opinions go no further than to hold that *in a suit to enforce a patent by an infringement action,* it can be shown that the patent was obtained by fraud and is invalid. That is neither a new doctrine nor one that relates to the problem involved here.

None of the other cases cited in the petition are analogous. Apparently they are referred to in the hope of extracting from them some general doctrine which may be used to create a new exception to the existing rule. We do not believe that it would serve any useful purpose to discuss them in detail here.

CONCLUSION.

Petitioner's attorney has taken the liberty in his brief (p. 22) of stating to this Court that there is now pending in the United States District Court for the Northern District of Illinois, Eastern Division, an action between respondent and a third party to contest the validity of one of the patents. We think this remark is wholly improper

and that petitioner had no right to refer to matters of fact outside the record. But since it has been mentioned, we call this Court's attention to the fact that petitioner is amply protected in the event the patent should be declared invalid because paragraph 8 of the license agreement (R. 7) gives petitioner the right to terminate the agreement at its option in the event all claims essential to commercial operation by petitioner in licensed letters patent shall be declared invalid.

Reduced to its essentials the argument of petitioner's counsel is that there ought to be a broad exception to the traditional estoppel rule, which would apply whenever a patent licensee resists a suit for royalties on the ground that a patent is invalid because the application therefor contained knowing false statements, or tries under that theory to recover royalties already paid in. But as the Appellate Court of Illinois aptly remarked in its opinion (Appendix to Petition and Brief of Petitioner) "an extension of the exception to the rule of estoppel to the fraud charged here would render every license agreement subject to attack in every case where priority of the invention might be questioned."

It is respectfully prayed that the petition for writ of certiorari be denied.

Respectfully submitted,

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